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THE INCOME TAX ON CORPORATIONS.

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THE Government of the United States is confronted with a present and growing deficit of revenues. The excess of income over expenditures for the year ending July 1, 1893, was only two million dollars. During the five months succeeding that date, receipts have fallen behind nearly thirty millions. An administration put into power by the people, with the express and unqualified commission to reduce the tax burdens, is pressed for means to meet the daily expenses of the public service. To falter in the great work of tariff reform would grievously disappoint the expectations of the people, and end the most inspiring contest in American politics with a ridiculous fiasco.

Were our system of federal taxation based upon enlightened economic principles, and our revenues gathered by any equitable rule of contribution, it would be an easy task to deal with any temporary shrinkage of income, due to the present commercial crisis, by the issuance of some form of government obligation or treasury certificates, to be taken up as soon as a return of business prosperity restored the normal volume of public revenue. But the very depression which to-day hardens the struggle for the necessaries of life is in itself the strongest call for a readjustment of taxes, and the asphyxiation of production and trade

within the confines of the home market demands that they should be given a larger freedom and a more abundant life. A Democratic administration, true to the traditions of the party, and following the precept and example of Mr. Jefferson, will earnestly attempt to substitute economy for taxation; but even when this has been done to the utmost limits that a judicious frugality will permit, it must still confront, as successfully as it can, the always unpopular duty of providing some new subject of taxation, not only to carry us through the existing crisis, but as a reliance for the few years during which our customs revenue may be lessened by the proposed reform of the tariff.

It is well to give a brief recital of the stages by which the federal treasury has been brought to its present straits and to put the responsibility where it justly and historically belongs. The surplus revenue for the year 1889 was estimated by Secretary Fairchild in his last report at $104,000,000. It proved according to the first report of his successor, Mr. Windom, something over $105,000,000. When the Cleveland administration went out of office on the 4th of March, 1889, it turned over an available cash balance which, if stated in the form of treasury statement used for the past two years, amounted to $184,829,190.29. This included, of course, the gold reserve. During the four years of the Harrison administration the form of the public debt statement was twice changed, first by Mr. Windom to conceal the fatness, and later by Mr. Foster to conceal the leanness, of the treasury. Let us examine, now, how this splendid surplus with which it began housekeeping was scattered, and new methods of bookkeeping became necessary to force any balance in its accounts.

The Democratic party had made an honest but unsuccessful attempt to relieve the treasury of surplus revenue by freeing the people of unneeded taxes. The full control of the government secured by the Republican party in the election of 1888 gave it an opportunity to deal with a treasury surplus according to genuine protectionist methods and ideas. Any tax that escapes into the public treasury without being tolled by some private taxgatherer is an offence to those ideas. The protectionist lawmaker is ever seeking some device by which he can tap its current, and the more of it the better, into some private reservoir. Failing in this he will generally abolish it altogether. Such was the manner in which the McKinley bill dealt with the surplus reve-

nue. It discovered that tobacco had "come to be regarded as a necessity by the poor as well as the rich," and it proceeded to reduce internal revenue taxes on that prime and indispensable necessary of life, and to abolish the special taxes on dealers and manufacturers. Raw sugars were our chief revenue-producing article on the customs list, and so it wiped out the duties upon them, with the virtuous cry of "a free breakfast-table for the working-man." Both these taxes were in a just and proper sense revenue taxes. The tobacco tax should not have been touched, because it went directly into the treasury from the pocket of the taxpayer, and was burdensome upon no one. The sugar tax might very properly have been reduced, but should not have been entirely abolished, because of all the items in the tariff it carried the largest proportionate amount of what the people paid into the treasury, and the least proportionate amount as incidental protection to the home producer; and the direct bounty with which the McKinley bill replaced the incidental protection has been far more burdensome to the taxpayer. But while taxes on tobacco were remitted because it had become a necessity for the poor man, new and heavier taxes were laid on the woollen clothing indispensable to his health and his productive energy, and to the health and comfort of his family, taxes so merciless that I venture to say they have no parallel in the world to-day. While sugar was untaxed to give the American workman a free breakfast-table, new taxes were placed on his cups and saucers, his plates and dishes, his coffee-pot, his knives and forks, his canned food, his omelet, and his tablecloth. In a word he was relieved of part of the taxes he paid to his government, in order that he might be made to pay much greater and more oppressive taxes to the gentlemen who were graciously permitted to frame the McKinley bill.

Except for the release of these revenues, which in the interval since their release would have given us over $150,000,000, we should not be confronted with a deficit to-day. The demands of the sinking fund for the past ten years could have been met, and there would yet be in the treasury a large balance, instead of less available cash of all kinds than the amount heretofore set apart as a special gold reserve to maintain the integrity of our paper money. But this does not tell the whole story. There was still the splendid surplus handed over by the previous administration, and accruing under the laws in force

up to the passage of the McKinley bill. How was that to be gotten out of the way? A large part of it was used to redeem, at a premium, bonds which had not yet fallen due. The purchase of such bonds, while effecting some saving to the government in future interest payments, depleted the treasury, so that it could not pay bonds which fell due a little later, and on which no premium could be demanded. Between the 4th of March and the 1st of October, 1889, Secretary Windom purchased $66,954,551, paying for 4½ per cent. bonds of 1891 premiums ranging from 5 to 8 per cent., and for 4 per cents due 1907 premiums ranging from 27 to 29 per cent. His report made December 1, 1890, showed that since June 30 of that year he had disbursed $98,276,682.10, and had redeemed $75,828,200 of bonds. The difference between these two sums was represented by $12,000,000 prepaid interest and over $10,000,000 premiums on bonds redeemed. The declared object of these prepayments was the necessity that large additional amounts should be at once returned to the channels of trade to avert threatened financial panic and disaster. But all this did not dissipate the surplus and the LIst Congress tried its hand upon it. It refunded the direct tax to the States, a mere log-rolling scheme to get at the treasury surplus, which Mr. Cleveland had vetoed when it was attempted in the previous Congress. This was a pure gratuity, but it took over $14,000,000. Next came the sugar-bounty act, under which payments amounting to some $170,000,000 have been made to sugar-growers. But chief of all as a means for emptying the treasury was the dependent pension act of June 27, 1890, the swelling disbursements under which have done so much to cause our present embarrassments. Under the operation of that law alone, our annual pension appropriation has risen more than $60,000,000.

Such is the story of our depleted treasury, and the real purpose of all these gratuitous bestowals of public moneys, and these immense additions to our annual burdens, is not far to seek. They were but part of a general plan to fasten on the American people, in perpetuity, the harsh and gigantic scheme of private taxation embodied in the McKinley bill; no possible precaution against its reformation or repeal being omitted. I cannot help quoting and applying to our tariff policy the well-known words in which John Bright described the foreign policy of his own country, when he said that wars had been multiplied, taxes in-

creased, loans made, public expenditures augmented, in order that the great families of England enthroned in legislation "might have the first pull at it and the largest profit out of it."

"There is no actuary in existence," he declared, "who can calculate how much of the wealth, of the strength, of the supremacy of the territorial families of England has been derived from an unholy participation in the fruits of the industry of the people, which has been wrested from them by every device of taxation."

Is it to be wondered at that months before the close of Mr. Harrison's administration the treasury was in distress, and that, too, notwithstanding the large additional sum which the Sherman bill put at its disposal—a trust fund of over fifty-four million dollars, deposited by national banks to redeem their notes—and which had been used so fully that just before the present administration came into power over twenty-two millions were still due holders of banknotes. Nor need we wonder that Secretary Foster changed the form of treasury statement, and put to the credit of his cash assets some twenty millions of minor and subsidiary coin in June, 1891, or that the requirements of the sinking fund were only in part met in 1891, and not met at all in 1892 and 1893, except by counting payments for the redemption of banknotes—out of their own trust fund in reality—as payments towards the sinking fund, under another ruling, to which, if I mistake not, Mr. Foster was driven by the stress of circumstances. When to the more than $200,000,000 used and made away with by the last administration, we add the loss of revenue from the two articles of sugar and tobacco alone, which amounts to more than 150 millions, it is not hard to understand why we have now an empty treasury, and how impossible it has been for Mr. Carlisle to maintain the gold reserve and yet meet the daily expenses of the government.

Such also are the supremely difficult conditions under which the Democratic party undertakes the duty of tariff reform. In attempting the great work which it has so eagerly sought permission to perform, it is brought to face an empty treasury and a permanent scale of colossal expenditures. It finds itself thus compelled not only to hold on to taxes it wishes to repeal or to reduce, but actually to seek out new sources of public revenue.

New taxes are always unpopular taxes, and no matter where we may turn for them we are sure to meet a chorus of vehement and angry protest. Especially has this been true as to the prop-

ositions to increase the internal tax on beer and to impose a moderate personal income tax. The theory of the income tax is a just theory, and has the approval of leading economical writers. Its trial in this country throws little light upon its practical operation, for it lived too short a time, and was too often changed to become a familar and workable part of our fiscal system. Its early repeal was carried by a very narrow margin in both houses, which would not imply that it was specially unpopular. Senator Sherman was among these stoutly opposing this repeal. In a speech made in the Senate in May, 1870, he declared it "the most just and equitable tax that is now levied in the United States of America, without exception." Equally strong words of approval were spoken in the House by General Hawley, of Connecticut, and Mr. Kerr, of Indiana.

The place of the income tax in the English system has been stated by Mr. Noble, in his "National Finance," as follows :

> "The enormous service which it has rendered in the liberation of trade from a multitude of onerous and oppressive burdens has been already re ferred to; its existence has rendered possible the great reform of our system of indirect taxation which has been the foundation of our modern commercial progress. It has the transcendent merit over duties of customs and excise, that it does not interfere with the processes of industry or the course of trade, and that the whole amount whichit costs the taxpayer is devoted to the service of the state. It is, at present, almost the only impost by means of which any substantial contribution is levied from the increasing wealth of the country; and its repeal without any effective substitute would aggravate the pressure of taxation upon those classes which are least able to bear the burden. It has its inequalities, but they are by no means so flagrant and unjust as the inequalities of indirect taxation."

But despite these strong arguments in favor of an individual income tax, and the unquestionable equity of its general theory, there are very grave counter-reasons which rise up before a legislature who seeks to embody it into our federal tax system. Aside from the very natural objection of those who might have to pay such a tax, its administration is necessarily accompanied by some exasperating and some demoralizing incidents. Our people have so long and so generally been free from any public scrutiny into their personal incomes, and even from any personal contact with federal tax collectors, that they resent the approach of either. Moreover, like the personal property tax, which is so universally evaded, a personal income tax would easily lend itself to fraud, concealment, and perjury, and prove, as Mr. Mill said, a

tax upon conscience. And finally, in a country of the large geographical dimensions of the United States, it would be difficult to put into smooth and effective working order the necessary machinery for its thorough collection.

It is not, in my judgment, however, liable to the charge that it is class taxation. Taxes upon consumption are taxes upon the poor, and it is one of the capital enormities of our present tariff laws that they place the chief burden of supporting the federal government and of paying pensions upon the labor of the country. The balance of taxation ought to be weighted by some taxes drawn from the property of the country. But there is one class of our citizens who own and control a very large and increasing part of the property of the country; who enjoy certain public franchises of a very substantial character, and who therefore have no right to object to some public scrutiny of their incomes. A small tax imposed upon the incomes or earnings of corporations, while not burdensome in any individual case, and not often bearing sensibly upon the interest of any private shareholder in them, would produce a revenue sufficient to cover a large part of the gap now opening between receipts and expenditures. Such a tax would not be a tax upon individual thrift, energy, or enterprise, but in the main upon the earnings of invested capital; and in view of the exemption from personal liability of stockholders, and other privileges which corporations enjoy, but which the individual business or professional man cannot enjoy, the equity of a tax upon their net earnings seems the more apparent, while the ascertainment of those earnings would generally be easy and reasonably accurate, and free from the offensive inquisition so much declaimed against in the case of the individual. The very limited public supervision incident to the assessment and collection of such a tax would not work any wrong or any interference with their lawful operations, while as a necessary part of a tax law, and used only for that *bona-fide* purpose, it might be salutary in its influence. Such are some of the reasons which, as I write, are impelling some members of the Ways and Means Committee to favor resort to a small tax on the earnings of corporations. Should, however, the final action of that committee on internal revenue matters not contain such a provision, it must not be taken as at all inconsistent with what I now say.

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